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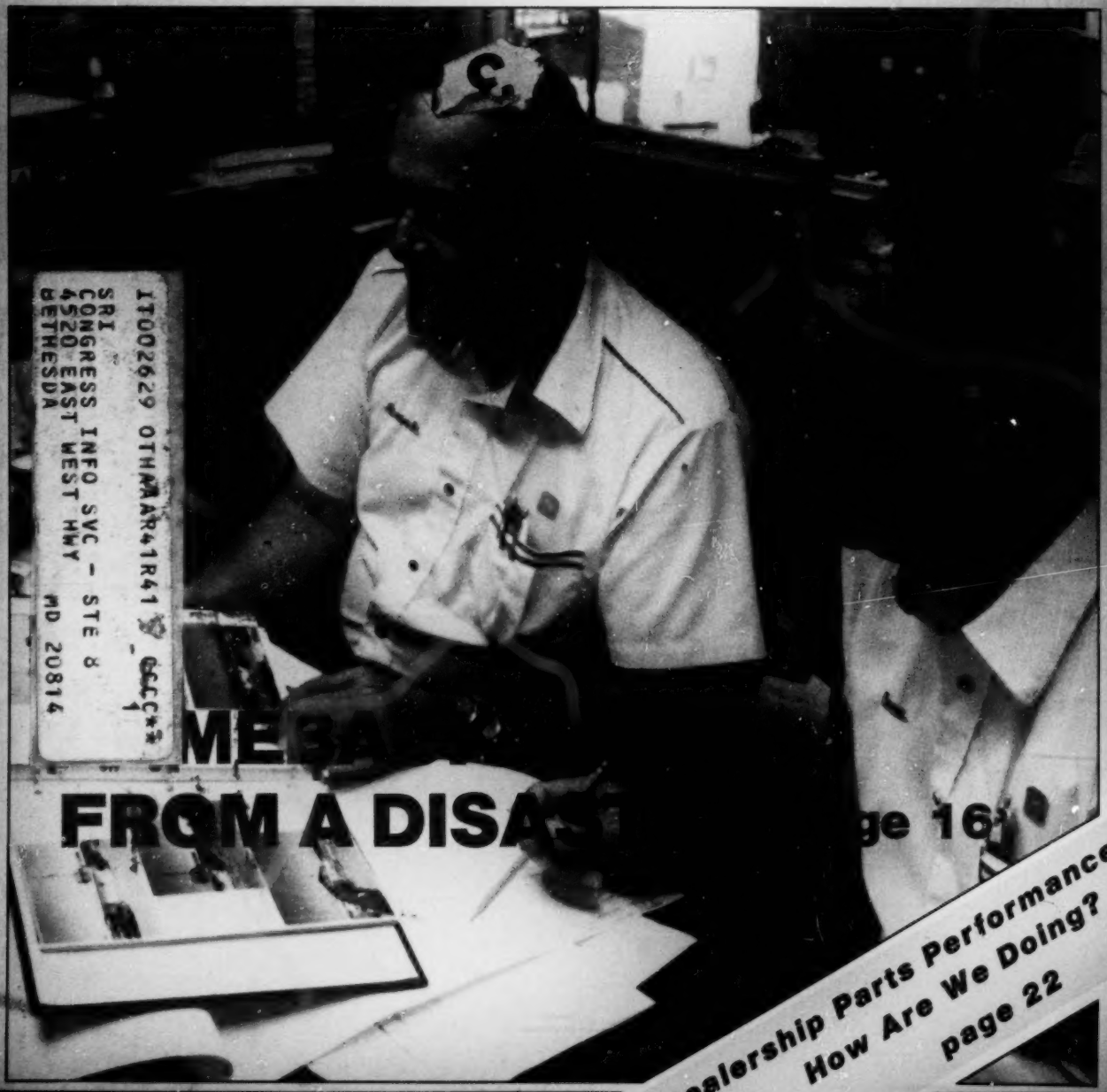
I&T 100 YEARS OF LEADERSHIP

Implement & Tractor

The business magazine of the farm and industrial equipment industry September 1988

A Fax in Your Future? page 13



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FROM A DISA... ge 16

Dealership Parts Performance: How Are We Doing? page 22

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I&T 100 YEARS OF LEADERSHIP

Implement & Tractor

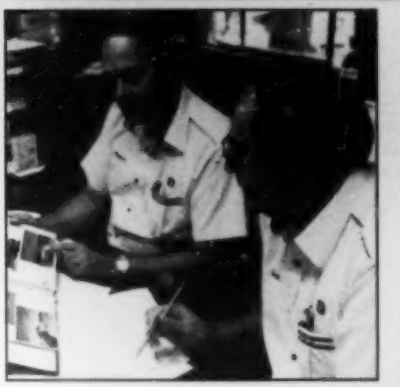
The business magazine of the farm and industrial equipment industry.

September 1988 • Vol. 103 • No. 10

On Our Cover

Partners Frank Fuller (left) and Tom Thurman review the destruction and rebuilding of their Iola, Kan., dealership's shop.

16



Features

10: **Dollar losses** remain high in dealership service operations. Are labor rate hikes the only answer?

13: **Maybe it's time** for your office to invest in a bit of electronic wizardry—a facsimile machine.

22: **A seven-year examination** of performance data shows some, but not much improvement in ag dealers' parts departments, with declines in the critical area of gross margins.

26: **Service personnel** and equipment operators can use their senses of smell, touch, sight and hearing to detect problems or prevent them in hydraulic systems.

28: **How well** does a piece of equipment perform after assembly or repair? Is the planting rate correct? How precisely are chemicals being applied? What are harvest loss rates, and are they acceptable?

32: **Report from Britain's Royal Show:** Tractor sales are bouncing up again.

Departments

Editor's Notebook 4
Industry Update 8
Industry Inventory 8
What's New 31
Brown Pages 37-39
Classified 40

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INDUSTRY UPDATE

July Retail Sales Show Full Impact of Drought

The monthly flash report of the Farm & Industrial Equipment Institute shows that U.S. retail sales in July took a drop in almost all product categories. Only two-wheelers over 140 hp and four-wheelers under 200 hp showed improvements. For the full seven months of 1988, however, the totals are very positive in most groupings.

UNIT RETAIL SALES

Equipment	July			January-July		
	1988	1987	% Change	1988	1987	% Change
Farm Wheel Tractors:						
2-Wheel Drive						
Under 40 HP	4,043	5,462	(26.0)	36,065	39,476	(8.6)
40 & Under 100 HP	2,549	2,766	(7.8)	20,286	17,840	13.7
100 & Under 140 HP	201	290	(30.7)	2,527	1,935	30.6
140 HP & Over	783	710	10.3	6,138	3,699	65.9
Total 2-Wheel Drive	7,576	9,228	(17.9)	65,016	62,950	3.3
4-Wheel Drive						
Under 200 HP	38	21	81.0	555	281	97.5
200 HP & Over	64	67	(4.5)	954	488	95.5
Total 4-Wheel Drive	102	88	15.9	1,509	769	96.2
Total Farm Wheel Tractors	7,678	9,316	(17.6)	66,525	63,719	4.4
Combines (Self-Propelled)	371	749	(50.5)	2,659	1,736	53.2
Balers (Bales under 200 lbs)	814	972	(16.3)	3,968	3,715	6.8
Forage Harvesters (Shear Bar Type)	167	197	(15.2)	1,145	1,087	5.3
Mower Conditioners	1,031	1,484	(30.5)	7,600	7,969	(4.6)

Kubota to Start U.S. Production in January

Kubota, Ltd., the Japanese manufacturer of small and medium-sized tractors, is building a 70,000-sq.-ft. manufacturing plant on 151 acres in Gainesville, Ga., near Atlanta.

Scheduled to be in production by Jan. 1, 1989, Kubota Mfg. of America will initially employ 50 employees and make loaders for Kubota tractors. Plans are to expand output to include other products for the U.S. market.

Straightening Out Some Show Dates

In our listings of major farm equipment shows overseas and in North America, we blew a few.

We started out telling you that the Australian National Field Days would be Nov. 15-17, 1988, at Orange, New South Wales. So far, so good. But then we told you that the DLG Agritechnica '89 would be held Nov. 28-Dec. 2, 1989, in South South Wales, Australia. Sorry, we missed by two continents. The DLG Agritechnica will be held on those dates at Frankfurt, West Germany. Contact: DLG, Zimmerweg 16, D-6000 Frankfurt, West Germany.

Inadvertently unlisted:

National Farm Machinery Show, Feb. 15-18, 1989, Kentucky Fair & Expo Center, Louisville, Ky. Contact: Box 37130, Louisville, 40233, phone 502/366-9592.

Southern Farm Show, Feb. 15-18, 1989, North Carolina State Fairgrounds, Raleigh, N.C. Contact: Box 36859, Charlotte, N.C. 28236, phone 800/334-0248.

INVENTORY WATCH

What's Happening To Stockpiles In Relation To Sales.

Equipment	Inventory Levels							12-Month Sales, July 1, 1987 June 30, 1988
	June 30, 1987	Jan. 31, 1988	Feb. 29, 1988	Mar. 31, 1988	Apr. 30, 1988	May 31, 1988	June 30, 1988	
Tractors								
Under 40 hp	61,855	62,176	63,479	64,921	62,361	59,761	57,223	57,978
40-99 hp	20,834	20,309	19,983	19,629	20,047	19,954	19,490	33,381
100 hp and over	11,952	5,142	5,578	5,379	5,463	5,963	6,472	18,958
Four-wheel drive	1,480	1,763	1,813	1,739	1,730	1,714	1,659	2,379
Total Tractors	**96,121**	**89,390**	**90,871**	**91,668**	**89,601**	**87,392**	**84,844**	**112,696**
S-P Combines	6,104	3,401	3,575	3,443	3,875	4,185	4,143	8,473

Source: Farm & Industrial Equipment Institute

Industry Shop Average Mired in Red

Dollar losses remain high in dealership service operations. Are labor rate hikes the only answer?

By Bill Fogarty

IS THERE improvement in the operation of dealers' service shops around the country? Over a seven-year span, dealers as a whole have cut their dollar losses in the shop, but movement has been modest and glacial.

What do we say about a dealer fraternity that no longer loses over $60,000 a year on average back in the shop—only a little less than $50,000:

Think about it: We've been living through an era like nothing since World War II. It has been a time in which farmers have depended on dealers to keep an aging, worn machinery fleet going in order to survive. The profit opportunities have been clear.

It has also been a time in which dealers have hunted for all kinds of diversified product lines—not all of them suitable—to provide some income and keep the doors open. And service has remained neglected.

Yes, some of these doors have closed anyway. *I&T* has often suggested that if dealers and their suppliers recognized the need for profitability in the shop, and had accepted profitability as the indispensible standard, many of those doors would still be open.

When we've been on our soapbox about this, we've sometimes been told: Relax. If dealers accounted properly in the shop and took steps to end the unprofitability, they would only be transferring the losses to the sales department.

Wrong! First of all, there are many dealers around who are proof that shop profitability *generates* profitability in other depart-

(More, pg. 12)

Service *(from page 10)*

ments. Second, once profitability is achieved in the shop, it generates greater excellence, more customer satisfaction, a quality reputation. You know what that means? It means that manufacturers' product lines derive a quality image. It means that more dealers stay in business and less money is wasted in the constant search for dealer replacements. What a pity that so many marketing bigshots in this industry are so hounded by their top managements to produce results *today* that they can't see the rewards of this long-range approach.

Reviewing data

Dealers have increased their sales of service labor in the 1980s. The national average per dealer moved from $162,327 in 1981 to $186,524 last year. This 15 percent increase was largely a result of dealers increasing their hourly labor rates. They didn't sell more of the hours they had available; they sold fewer.

In the 1980s, service labor has become a bigger slice of the dealership's overall volume, moving from 6.55 percent of all sales to 8.0 percent. Gross margin dollars increased by a third. In the first five years of our seven-year study, dealers improved service labor sales margins from 38 percent to 45 percent. The margins have eased off since then.

Dealers have held the line on dollars spent for shop supplies and expenses. Despite inflation, the average figure has stayed at a little over $10,000.

Similarly, the number of service technicians has stayed about the same. It would be encouraging to think that the 5.5 per shop has held steady because they are performing better. Undoubtedly many of them are, but look at billing efficiency (small table). Fewer of their total hours on the payroll are being charged out than at any time in the seven-year period: 62 percent.

The rise in sales per technician is a factor of the steady increase in the customer service rate. Over the seven years, the rate is up 30 percent. Hourly pay scales of top technicians and regular technicians have gone up 21 and 18 percent respectively.

Until 1985, the NFPEDA's *Cost of Doing Business* study included the hourly internal service rate. It isn't shown anymore. In the opinion of Texas A&M's Dick Edwards, who compiled the billing efficiency and shop loss data in the small table, this is because few dealers continue to maintain a separate, lower rate for internal labor than for customer work. If that is correct, it may be the brightest news in this article. It would signify that more dealers are understanding that overhead, wages and other costs continue at the same rate, whether work is being done on a customer's machine, a trade-in or anything else.

Question: How long will the market accept increases in the customer service labor rate? It is probably true that service labor rates in the farm equipment industry have generally been underpriced. A look at the rates charged by auto and truck dealerships would underscore this. In comparison, the service labor rates charged by the people who fix your photocopier, or even your neighborhood plumber, are astonishing.

Nevertheless, no price can continue to be raised indefinitely. Some form of price resistance will develop eventually. The question is raised to suggest that price hikes won't always avail as a substitute for inefficient shop man-

(See Service, page 36)

Bottom Line for Service Departments

The major factors in the service department picture are, did it make or lose money, and how much, and how well did the department perform its job of selling the service hours it bought? Here's a seven year look at billing efficiency and departmental loss, as compiled by Richard Edwards, agricultural economist at Texas A&M University.

Year	Billing Efficiency	Departmental Losses
1981	66 pct.	$67,000
1982	66 pct.	62,000
1983	63 pct.	47,000
1984	68 pct.	65,000
1985	64 pct.	52,000
1986	65 pct.	47,000
1987	62 pct.	47,000

Service Department Performance, 1981-87

	1981	1982	1983	1984	1985	1986	1987
Labor Sales	$162,327	$157,181	$153,739	$174,185	$174,580	$178,382	$186,524
Pct. of All Sales	6.55	7.18	7.19	6.98	7.81	8.00	8.00
Gross Margin	$61,096	$61,707	$64,605	$74,304	$78,818	$78,653	$81,559
Pct. of Labor Sales	37.64	39.25	42.02	42.66	45.15	44.09	43.73
Shop Supplies, Expenses	$10,413	$9,815	$9,322	$10,518	$9,861	$10,110	$10,105
No. of Technicians	5.85	5.50	5.39	5.38	5.40	5.30	5.50
Sales per Technician	$27,748	$28,579	$28,523	$32,310	$32,329	$33,656	$33,913
Wage, Top Technician	$7.52	$7.52	$7.73	$8.03	$8.17	$8.65	$9.07
Wage, Regular Technician	$6.05	$5.96	$6.02	$6.28	$6.44	$6.95	$7.13
Hourly Customer Service Rate	$19.55	$20.25	$21.24	$22.35	$23.55	$24.42	$25.46
Hourly Internal Service Rate	$17.04	$17.87	$17.42	$18.50			

Are Dealers' Parts De

By Bill Fogarty

IT'S TIME to take a long look at where we've been in the area of parts department performance. It might tell us where we're going and, if necessary, indicate where some changes in direction are important.

For starters, *I&T* took the newly issued *Cost of Doing Business* study issued by the National Farm & Power Equipment Dealers Assn. It covered dealer experience for 1987, and we noted all national average data for agricultural dealers' parts operations. Then we pulled the same CDB studies for the previous six years and entered the same numbers. What we got is what you see in the table that accompanies this report.

It would be ideal if the CDB could get input from all NFPEDA members so that comparability could be total from year to year. But some dealerships go out of business and new ones start up. And some dealerships deviate from standard practice in recording their data.

Nevertheless, NFPEDA gets a very strong sampling, for about one dealership in eight participates in the study. In effect, it's the only game in town, the best publicly available road map to show how the retail end of this business is doing.

The year-to-year numbers in the table can speak for themselves, but the following is commentary from a veteran industry watcher.

A seven-year examination of performance data shows some, not much improvement, with declines in the critical area of gross margins. Note to industrial dealers: You do better, but not a lot.

Parts sales, percent of total sales. Dealers' parts volume was a fourth more in 1987 than it was in 1981. Good? One would have to look at the true inflation record as applied to parts in this business to be sure, but it appears that volume has suffered at the hands of outside competition.

Stuart MacKay, the aftermarket research specialist used by the Farm & Industrial Equipment Institute, has said that farm equipment dealers had 69 percent of the parts aftermarket in 1980 and were getting only 59 percent in 1985.

Meanwhile, farmers were investing in parts at advanced rates to keep their older machines going. Sales of whole goods were declining in the 1980s, and thus, parts sales as a percent of total sales of the dealership went up. In 1981, they were 18 percent of the total; in 1986 and 1987, they were almost 24 percent.

Gross margins, margins as a percent of parts sales. Again, the dollars went up over the seven years. But the margins as a percent of sales continued downward. I&T had an article in 1981 which reviewed this trend. The decline was going on in parts department margins in the latter half of the 1970s: 32.23 percent in 1976, 29.62 percent in 1977, 29.15 percent in 1978, 28.62 percent in 1979, and 30.80 percent in 1980.

This trend line has wavered from its downward path somewhat over the dozen years, but the direction is clear.

Meanwhile, what has happened to the expenses that dealers must pay from these margin dollars? They have been going up—social security and hospitalization costs are the most notable ones, and there are others.

Parts inventory, parts as a percent of assets. The average ag dealership's parts inventory went up 28 percent over the seven years. Parts as a percent of assets has gone up by 35 percent over the same period.

AG DEALERS' PARTS PERFORMANCE : A SEVEN-YEAR

Year	Parts Sales	Pct. of Total Sales	Gross Margin	Pct. of Parts Sales	Parts Inventory	Parts as Pct. of Assets	Parts Turn-over
1981	$450,017	18.13	$138,072	30.68	$167,351	11.37	1.90
1982	457,045	20.87	142,989	31.29	170,675	11.36	1.81
1983	450,964	21.09	139,807	31.00	173,744	11.72	1.81
1984	505,557	20.26	153,134	30.29	196,987	10.42	1.78
1985	526,836	23.58	156,094	29.63	198,261	12.62	1.87
1986	533,671	23.93	153,816	28.82	203,506	14.38	1.87
1987	556,067	23.85	156,869	28.21	213,738	15.27	1.87

partments Improving?

A good question: How diligent are dealerships in writing up or down the value of their assets as they change? Given the slow turnover rates (more about that later) that dealers traditionally produce, price hikes would have raised the value of that parts inventory somewhat more than these numbers are showing.

On the other hand, the FIEI Parts Committee reports that most of its members think that their dealers are gradually cutting down on their parts inventories, relying more on electronic inventory control systems to weed out slow moving items and tie up fewer dollars in parts.

Parts turnover. But if dealers are weeding out the slow movers, what's happening to turnover? Or rather, what *isn't* happening to turnover?

Turnover ratios started moving down in the mid-1970s from the unusual highs of 1973 and 1974: 2.24 in 1976, 2.02 in 1977, 2.05 in 1978, 2.01 in 1979 and 1.84 in 1980. Since then, they have generally hovered between 1.80 and 1.90.

Partsmen, performance and pay. Sales per partsman have moved up over the seven years by 26 percent. The salaries of partsmen have gone up by less than 20 percent. And that includes increases in payroll taxes and insurance. Does this mean that the margin squeeze that dealerships have felt in their parts departments has been coming out of the hides of the people who work in them? It's hard to come up with any other answer.

One is reminded of the comment of John Walker, the parts consultant: "Some dealerships' parts managers have incomes that could qualify them for food stamps."

Industrial dealers

In recent years, the *Cost of Doing Business* study has broken out information on industrial dealers. Without constructing a seven-year table, it might be good to see how ag and industrial dealerships currently compare:

Parts Factor, 1987	Industrial Dealers	Agricultural Dealers
Parts sales	$630,789	$556,067
Parts as pct. of sales	19.08	23.85
Gross margin	190,323	156,869
Pct. of parts sales	30.17	28.21
Parts inventory	190,848	213,738
Parts as pct. of assets	9.78	15.37
Parts turnover, times	2.31	1.87
Employees in parts dept.	2.60	2.10
Sales per parts employee	242,611	264,793
Parts employees' salaries	52,483	38,419

Clearly, industrial dealers have some natural advantages. They tend to develop higher overall volumes of sales, and their parts sales are thus substantially higher. Parts represent a substantially smaller amount of the industrial dealer's assets, and apparently he understands how to use those assets better, turning them at a much stronger rate than the ag dealer does.

But it is said that the industrial dealer's parts demand is much easier to anticipate and easier to stock for. Is it? Or do they simply use their parts information and control systems better?

The industrial dealer uses more personnel to get his better turnover and margin, and he pays his parts people just a shade better than the ag dealer does. When one compares typical urban vs. small town living costs, the ag dealer probably provides a better overall living for his parts people. The ag dealership parts personnel respond by making more sales per employee.

Given the varying circumstances between ag and industrial dealers, the edge goes to the industrial types, but not by much.

Report card

In the early 1980s, Ed Walsh, the independent consultant on dealership management concerns, said that a parts department had to generate a gross margin of 34 percent in order to make a satisfactory profit contribution for the business. Asked about the same figure today, Walsh commented:

"I haven't put a pencil to it in the past couple of years, but if we assume that a dealership has the proper accounting procedures, an average rate of parts obsolescence, an acceptable level of parts receivables, etc., I'd stick with that 34 percent.

"Of course, if a dealership can get its sales per parts employee up, faster than inflation in parts prices, that would modify the gross margin percentage needed.

"It has been my experience that there is a tendency in many dealerships not to allocate what it really takes in the way of parts department overhead." In other words, the dealer gets a lower gross margin in parts, but because the department isn't being allocated its overhead

(More, next page)

SCORECARD

No. of Partsmen	Sales per Partsman	Partsmens' Salaries
2.14	$210,289	$32,103
1.97	232,003	31,757
2.07	223,250	31,391
2.06	245,166	35,514
2.10	251,158	35,345
2.10	254,729	37,487
2.10	264,793	38,419

THE TWO KEYS to improvement of dealership parts performance are upgrading inventory control and stronger merchandising. Both are dependent on the presence of skilled and talented people.

PARTS *(from pg. 23)*

properly, he thinks its profit contribution is satisfactory.

Walsh observed: "The biggest problem with the parts department is that it's not much different from the way it was 50 years ago. Parts come in and are unloaded and put away by hand. When they're sold, they come out by hand. You can't automate it. It's a hands-and-feet operation. And so dealers need to start using their brains."

Have they? In many dealerships, a lot of data-managing work that is a vital segment of the parts operation is now computerized. Done right, this can add to the productivity of the department and its personnel. But many parts experts fault dealers for not looking after all the profit possibilities that the department presents.

One of these is taking advantage of the parts return priviledge. Another is consistent merchandising efforts. Another is upgrading of parts personnel who are trained to sell.

As long as managements at many farm equipment dealerships are not inclined to give the parts department its due share of commitment, it isn't likely that *Cost of Doing Business* data will show much change. But the fact is, there are dealerships that know how to do it—and do it.

Meanwhile, there's that competition lurking out there that has been taking large chunks of the farm equipment parts business away from dealerships. They have nothing to do except sell parts efficiently and profitably. That's what totally occupies the minds of the people who run such outlets and the companies that supply them.

The fact that the CDB scorecard on parts department performance has changed little in the 1980s has to be examined in the light of this kind of formidable competition. □

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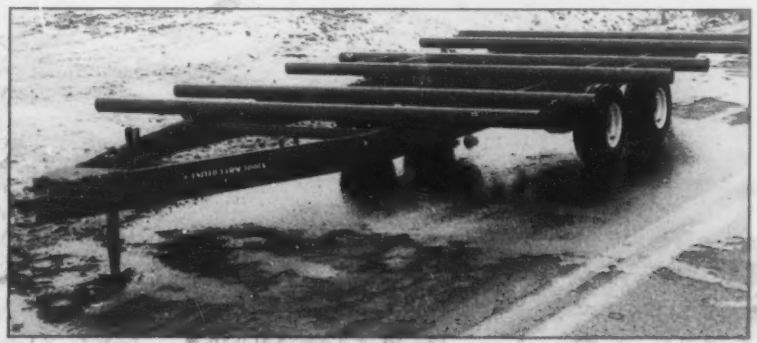

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FAX *(from page 14)*

chine, your only additional expense for using it is the cost of a long distance telephone call. If you have a one minute minimum line charge of 41 cents for the first minute and 35 cents for each additional minute, you can send a page (about 200 typewritten words) for 41 cents. Two pages will also go for 41 cents. You can send 10 pages for $1.46 and 25 pages for $3.21. You will normally use your regular telephone line, but it you can expect to be using the machine quite frequently during the day, you may wish to have a special "dedicated" line for it alone.

Supplier use

A number of your suppliers and wholesalers are making good use of facsimile machines themselves. For instance, Jay Hesse of Automatic Equipment Co., Pender, Neb., says: "We currently use our machine to correspond with all WDA distributors in the recreational vehicle field as well as many of our suppliers. We also know that Harco Ag of Harriston, Ont., communicates with us almost entirely by facsimile.

"We see many opportunities for the fax machine. Included are elimination of voice telephone time, manpower and customer hold time. We have found that most orders can be placed by facsimile, both wholegoods and parts. Quotations, availability and delivery time can also be communicated quickly and clearly in written form."

"With all the growth we've had around here," adds Hesse, "we're understaffed for people who take and give information over the phone. The fax cuts down on the time involved. We also find it useful in communicating with our ad agency when we want to make fast changes in the wording of our ads. We do in a day what took a week or so. We can also ask for and get steel bids from several suppliers immediately."

Available facsimile machines range in size from floor models down to units that can be carried on the road in a briefcase-size carrier. Telephone Yellow Pages list the many facsimile suppliers you can contact for specifications and prices. They have been known to make some especially good deals. NFPEDA is also considering plans which would allow dealers to obtain facsimile machines through its dealer services section.

So there you have it—a brief overview of what a facsimile machine can do for you, how much it will cost and how much you can expect to pay to operate it. One dealer, Woody McCartney, Durand, Ill., says:

"We could conceivably use such machines to send copy between our two stores which are located about 50 miles apart, but they will have to get the price down a bit before we can justify buying two of the units—one for each store. We've looked into the advantages and disadvantages of facsimile and have elected to wait for prices to get down to where we can justify their installation and use." □

Notebook *(from page 7)*

ter job, doesn't it?)

A lot of farm shows are put on by regional dealer associations or in affiliation with them. And because dealers are generally very loyal to their associations, many of them help out in the promoting of the shows. But they may soon learn that they have a much bigger stake in getting busloads of qualified people together for the trip to the regional show.

They will want some training from their suppliers in the fine art of getting the right people to the right show in large numbers. How else will they get customers to see, touch and be excited by the new machinery? Well, there are pictures in catalogs and literature on the racks, but they can only go so far. Or they buy and stock the inventory themselves. Rather expensive.

Meanwhile, we applaud the efforts of the North American Farm Show Council to work with the FIEI and FEMA in taking the whole trade show business closer to its necessary potential. It's only the beginning. □

Briefly...

Michael O'Brien, professor emeritus at the Department of Agricultural Engineering, University of California, Davis, has received the 1988 Massey-Ferguson medal from the American Society of Agricultural Engineers. It was given for his "dedication to effective teaching, interest in students and contributions to the knowledge base for agricultural engineering."

Service *(from page 12)*

agement. They don't suffice now: Look at the average shop loss of $47,000.

Some big winners

The *Cost of Doing Business* study draws participation from a broad spectrum of dealers. It's clear from an examination of the service department data of the high-profit ag dealers that some participants can and do make good money from a thriving service department that gives constant customer satisfaction.

Perhaps, rather than express frustration at what is happening in a large number of dealerships, we should focus on what's happening with the winners. When we do case histories of individual establishments, we do. However, the weak performance of the majority of shops is bad for the industry as a whole, not just these individuals.

As said earlier in this piece, when an unprofitable shop sucks another dealership under, everybody loses—the dealer who had wanted to build a successful business, the farmer who needs ready access to parts and service, and the manufacturer who now has no representation in the area and whose product value perception is dimmed a bit.

If that sounds alarmist, consider this: The general reputation of farm equipment dealerships as good places for service technicians to make a career is not strong. Dealers have trouble finding good technical talent. Vocational training programs in agricultural mechanics are said to be in trouble for lack of applicants.

As long as a large body of farm equipment dealers is disinclined to manage the service department to a point of profitability, they won't be attracting the talent they need to do the job in the 1990s. Given this situation, what will manufacturers do? Answers to such a question are many, and most of them wouldn't be very desirable to anyone involved—farmer, dealer or manufacturer. □